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SUBJECT: TURKEY'S 2004 TRADE WITH IRAQ SURPASSES 2003 LEVELS

1.(SBU) Summary: Determining export totals by region is an inexact science, but data from local business groups indicates trade between southeast Turkey and Iraq reached approximately \$586 million in 2004. (Note: Total Turkish exports to Iraq in 2004 were \$1.8 billion. End note.) Moreover, since April 2003, some \$2.5 billion in refined petroleum, related transportation services and sustaiment commodities, like water, have been delivered or are en route to Iraq through the region's Habur Gate in support of Operation Iraqi Freedom (OIF). Contacts claim that revenue from this increase in economic activity is not having a significant impact on employment and investment in southeast Turkey. Despite those claims, to the extent more truckers are contracted to go to Iraq, common sense suggests there should be additional income and employment in the region. However there is a shortage of reliable statistics and anecdotal evidence to confirm that assumption. End summary.

Southeast Turkey's Exports to Iraq

2.(U) Southeast Turkey accounts for roughly 30 percent of Turkey's population, and 15 percent of its GDP. The Gaziantep-based Southeast Anatolian Exporters Union (SAEU) reports its members' 2004 exports to Iraq were \$237.5 million, close to two times the previous year's amount (Note: SAEU includes exporters from Gaziantep, Kilis, Sanliurfa, Diyarbakir, Sirnak, Siirt and Mardin provinces. According to the Gaziantep Chamber of Commerce, Gaziantep alone accounted for \$178 million of the union's exports to Iraq in 2004, up from \$99 million in 2003. End note.) Statistics from the Adana Chamber of Commerce show Adana province's 2004 exports to Iraq coming in at \$96 million, almost four times the 2003 total. Adding to these figures information from the Mersin-based Mediterranean Exporters Union (MEU), we get a snapshot of the southeast region's exports as a whole for 2004:

2003 (in millions of USD)	2004
SAEU:	122.5 237.5
Adana CoC:	24.5 96.0
Sub-Total:	147.0 333.5
MEU:	----- 252.6
Total:	----- 586.1

(Note: Unfortunately, and somewhat strangely, neither MEU nor other business contacts in Mersin, including the Chamber of Commerce, have data on 2003 exports to Iraq. End note.)

What is being exported?

3.(U) Adana exporters sent \$27.7 million worth of machinery and mechanical equipment (e.g. agricultural-related machinery, portable welding, some medical equipment, pre-manufactured steel elements, pre-cast concrete infrastructure material), as well as food products, and assorted manufactured goods to Iraq. As for exporters of the SAEU, a representative citing Gaziantep statistics stated ready-to-wear apparel, machine-made carpets, grains, chemical products, dry fruits, and edible oils companies are doing particularly well. Statistics for SAEU as a whole are as follows (millions of dollars):

	2003	2004
Cereals/Legumes	22.1 52.2	
Chemicals	21.9	29.1
Rugs	14.7	28.1
Ready to wear	14.4	25.3
Cement	9.7	17.9
Steel	6.9	17.4
Electronics	8.0	16.0
Dryfruit/ed oils	5.2	14.5
Wood	6.2	11.9
Transport vehicles	2.4	8.1
Raw textiles	3.6	7.9
Leather products	5.5	7.1
Fish/Livestock	1.1	1.1
Fresh fruits/Veg	0.6	0.3
Minerals	0.4	0.6

As an aside, a partner in one of Mersin's largest exporters of cereals and legumes told us that, while the food sector in general is doing quite well now, his Mersin company's sales to

Iraq were actually higher in 2003 than in 2004. He attributed this to purchases by Saddam's regime, as well as food assistance programs, stocking up prior to the war.

Sustainment

14. (SBU) Since April 2003, some \$2.5 billion in refined petroleum, related transportation services and sustainment commodities, like water, have been delivered or are en route to Iraq through the Habur Gate in support of Operation Iraqi Freedom (OIF). It is difficult to specify just what portion of that amount has benefited Turkish companies directly; of the benefits that have accrued to Turkey, it is even more difficult to ascertain the portion that ends up in southeastern Turkey. Petrol Ofisi, for example, said to AMCON ADANA in December 2004 that it has been making 3 to 5 percent profit on sales of some \$1.6 billion during this period, and local water sales for OIF sustainment have grossed approximately \$90 million.

15. (SBU) These profits probably make a substantial difference to the profits of Petrol Ofisi - a nationwide company quoted on the Istanbul Stock Exchange - but have little local impact on the Southeast. On the other hand, to the extent Petrol Ofisi is contracting more drivers to go to Iraq there should be additional income and employment for the truckers concerned. However there is a shortage of reliable statistics and anecdotal evidence, especially regarding employment figures, to confirm that assumption. In the infrastructure materiel business, for example, one local employer of almost 400 workers said he hired approximately 15 percent more workers in 2004 over 2003. But the largest construction firm in town (employing close to 2000), which is very active in Iraq, reports no increase in employment: "our sector is still in crisis," says the company's CEO. The region relies heavily on day labor that is often not recorded on the books, thus a true picture of the impact of increased trade with Iraq is difficult to measure.

16. (SBU) The sector break-down of MEU members' 2004 exports may provide some additional insight into the local impact of U.S. buying for sustainment. (Note: MEU is the union which covers exporters mostly from Mersin and Adana. End note). The following figures are MEU exports for 2004, in millions of dollars (no 2003 figures available):

LPG	\$85.1
Diesel	\$34.9
Gas	\$25.3
Pre-fab steel	\$17.3
Red lentils	\$10.9
Edible oils	\$ 8.1
Soaps	\$ 8.0
Cleaning prod	\$ 7.9
Beans	\$ 7.7
Soft drinks	\$ 6.6
Beer	\$ 6.4
Alumin/cables	\$ 5.3

(All others categories of exports fall below \$5.0 million)

Informal sector

7.(SBU) Informal - including black market - trade between Turkey and Iraq is almost impossible to measure. Developments in the last two years may have moved some, especially truckers, from the informal sector (e.g. smuggling of fuel during Saddam's regime) to the formal sector, as they enter into transportation contracts for sustainment fuel providers. For these truckers, there may be a decrease in the standard of living, as a result of costs associated with participating in the formal economy, such as taxes and social security payments. Many truckers, as seen in December's strikes, even claim to be breaking even or actually losing money. Until three months ago, only the Turkish side was combating fuel smuggling out of Iraq by truckers. (Note: Fuel in Iraq costs 5-10 cents per liter, while in Turkey it sells for approximately \$1.50 per liter. End note.) In response to GoT complaints, Iraqi officials have now implemented regulations that have greatly decreased the amount of fuel truckers are able to smuggle, though the practice has not ended altogether. Additionally, local smuggling by day traders occurs in commodities such as sugar and tea, which are far less expensive in Iraq than in Turkey.

Trade may be up, but minimal macro impact so far

8.(SBU) Contacts assert that everyone is getting a small piece of the modest benefits of this trade. Exporting companies see some revenues, workers feel a bit of job security with the re-emergence of this market, and -- to the extent that companies are actually paying taxes and/or social security -- government gains some benefit from the trade.

9.(SBU) However interlocutors from Diyarbakir to Mersin to Mardin claim that the increased exports to Iraq over the last year are not resulting in any significant increase in investment

or job creation in southeast Turkey, be it from domestic or foreign sources. (Note: They further assert that few Turks, aside from some smaller ethnic Kurdish Turks doing informal sector investment, which is difficult to track, are making significant investments in Iraq. End note.) One or two transportation companies based in southeast Turkey have told us they have constructed warehouses near Habur Gate, and one reinvested in its trucking fleet, but this does not appear to be an across-the-board phenomenon. Several factors are mentioned to explain why trade with Iraq has resulted in little investment in Turkey.

10.(SBU) First, the lack of security in Iraq currently leaves the business community in a "wait-and-see" posture, especially as some businesses are also still paying down debts incurred in the wake of the 2000-01 financial crisis. Second, excess capacity in the region, and in plants elsewhere Turkey, seems to be filling the rising demands of this relatively small market without new investments. (Note: While it seems hard to believe that there was so much unused capacity in the southeast that exports could double with such a minimal impact on employment and investment, it is hard to find contrary evidence. The region had been very depressed in 2002-03 in the wake of the financial crisis. End note.)

11. (SBU) Finally, business contacts claim that despite the increased level of exports, their profit margins are still quite thin. Some claim to be staying in business with almost no profit, just hoping for more opportunities when the security situation improves. Representatives of international businesses have recently been visiting industrial zones in Adana, Mersin and Gaziantep, according to local contacts, in order to "see what we do and do not have," but no major investments have yet been forthcoming from such visits. One area that could use investment in Mersin, for example, is cold storage capacity, which is currently strained by a significant amount of American chicken parts moving to Iraq.

12. (SBU) As for investment in Iraq, several larger Turkish players with southeast presence say they are awaiting privatization there. We hear that Sabanci group is interested in the water and cement sectors in Iraq, for example. Gaziantep-based SANKO is taking a wait-and-see approach, mulling possible opportunities in Syria (septel) for the moment and shipping textile products, edible oil and water to Iraq from existing plant in southeast Turkey.

13.(U) Baghdad minimize considered.

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